

CAPITAL AREA TRANSIT SYSTEM**DECEMBER 31, 2007 AND 2006****BATON ROUGE, LOUISIANA**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/13/08

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Hannis T. Bourgeois, LLP

Certified Public Accountants

Randy J. Bonneau, CPA*
Joseph D. Richard, Jr., CPA*
Ronnie E. Stamper, CPA*
Fernand P. Genre, CPA*
Stephen M. Huggins, CPA*
Monica L. Zumo, CPA*
Ronald L. Gagnet, CPA*
Douglas J. Nelson, CPA*
Celeste D. Viator, CPA*
Laura E. Monroe, CPA*
R. David Wascom, CPA*

*A Professional Accounting Corporation

2322 Tremont Drive
Baton Rouge, LA 70809
Phone: (225) 928-4770
Fax: (225) 926-0945

*Members American Institute of
Certified Public Accountants*

1175 Del Este Avenue, Suite B
Denham Springs, LA 70726

www.htbcpa.com

June 18, 2008

Independent Auditor's Report

To the Board of Directors
Capital Area Transit System
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Capital Area Transit System (the "System"), a component unit of the City of Baton Rouge - Parish of East Baton Rouge, and the Capital Area Transit System's Employees' Pension Trust Fund (a fiduciary fund of the System) as of and for the years ended December 31, 2007 and 2006, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System and its fiduciary fund as of December 31, 2007 and 2006, and the respective changes in financial position and, where applicable, cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the System will continue as a going concern. As shown in the financial statements, the System incurred net losses before capital contributions of \$2,422,645 and \$1,459,766 for 2007 and 2006, respectively, and has a deficit balance in unrestricted net assets of \$579,021 and \$252,772, as of December 31, 2007 and 2006, respectively. Current liabilities exceed current assets by \$1,709,681 and \$1,186,132 at December 31, 2007 and

2006. In addition, the System is working with the FTA to establish the repayment terms for the identified questioned costs and associated interest costs of \$1,052,863 (See Note 9). Those conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2008 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 and the Pension Trend Information in Schedule 1 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Hannis T. Bourgeois, LLP

**CAPITAL AREA TRANSIT SYSTEM
Management's Discussion and Analysis
For the Year ended December 31, 2007**

This section of the System's annual financial report presents a discussion and analysis of the System's financial performance during the fiscal year ended December 31, 2007. Please read this section in conjunction with the System's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The System's net assets are \$2,106,264 as of December 31, 2007, representing a decrease of \$1,661,127 or 44% from that of December 31, 2006. A substantial portion of the net assets are invested in capital assets.
- A deficit in unrestricted net assets exists which signifies that obligations exceed resources to satisfy those obligations as of December 31, 2007.
- Net losses before capital contributions were \$2,422,645 and \$1,459,766 for 2007 and 2006, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and required supplementary information.

The financial statements provide both long-term and short-term information about the System's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements required by GASB 25. The System maintains two different funds: a proprietary fund and a fiduciary fund.

The System is a component unit of the City of Baton Rouge - Parish of East Baton Rouge (City-Parish).

Proprietary Fund. The System has one type of proprietary fund, an enterprise fund, which is used to report the same functions presented as business-type activities; for the System, the fund accounts for all transit activity. The basic proprietary fund statements can be found on pages 7 through 10 of this report.

The System's proprietary fund financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the System are included in the Statement of Net Assets.

The Statement of Net Assets reports the System's net assets. Net assets, which are the difference between the System's assets and liabilities, are one way to measure the System's financial health or position. The net assets are classified into three categories: invested in capital assets, restricted, and unrestricted.

CAPITAL AREA TRANSIT SYSTEM
Management's Discussion and Analysis
For the Year ended December 31, 2007

Fiduciary Fund. The System has one type of fiduciary fund, a pension trust fund, which is used to account for resources, held for the benefit of parties outside the government. The fiduciary fund assets are not available to finance transit operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund statements can be found on pages 11 through 12 of this report.

FINANCIAL ANALYSIS OF THE SYSTEM:

Net Assets

The System's total net assets at December 31, 2007 decreased from \$3,767,391 to \$2,106,264. Table A-1 summarizes the System's net assets as of December 31, 2007.

In addition to a decrease in net assets, the System is still experiencing an ongoing "tight" cash position. Restricted assets represent resources contractually restricted, primarily related to matching funds to be used for federally funded activities. The System does not own land and buildings; rather, the City-Parish provides the System with the use of its administrative building and terminal facility.

Long-term liabilities decreased from \$7,429,670 to \$6,790,945 as a result of current year payments for the capital lease obligations entered into during 2004 for the upgrade to the bus fleet. Future federal grants are anticipated as the funding source for these leases. Management believes that the System's operations will generate adequate cash flow for the 2008 fiscal year.

Table A-1
Capital Area Transit System's Net Assets
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Current unrestricted assets	\$ 1,593,533	\$ 1,782,559
Restricted current assets	29,941	211,849
Total current assets	1,623,474	1,994,408
Equipment, net	8,908,465	10,652,113
Net pension assets, long term	1,668,484	1,519,231
	<u>\$ 12,200,423</u>	<u>\$ 14,165,752</u>
Liabilities and Net Assets		
Current	\$ 3,303,214	\$ 2,968,691
Long term claims payable and related liabilities	779,413	813,319
Long term other liabilities	6,011,532	6,616,351
	10,094,159	10,398,361
Net Assets - Invested in Capital Assets	2,655,344	3,808,314
Net Assets - Restricted	29,941	211,849
Net Assets - Unrestricted	(579,021)	(252,772)
Total Net Assets	<u>2,106,264</u>	<u>3,767,391</u>
	<u>\$ 12,200,423</u>	<u>\$ 14,165,752</u>

**CAPITAL AREA TRANSIT SYSTEM
Management's Discussion and Analysis
For the Year ended December 31, 2007**

Changes In Net Assets

The System's operating revenues decreased from the prior year amount of \$4,687,795 to \$4,602,772 or 1.81%. This decrease is primarily attributable to a slight decrease in revenues generated from passenger fares. The System experienced a decrease in ridership as a result of the fare increases in 2006.

Operating expenses increased by \$1,783,788 or 12.35% to \$16,222,387. Additions in administrative staff and professional and technical services attributed to this increase.

Net non-operating revenues in 2007 increased as a result of increases in operating transfers from City Parish Government and a increase in other revenues.

**Table A-2
Capital Area Transit System's Changes in Net Assets
For the Years ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Charges for services	\$4,593,813	\$ 4,670,192
Other	8,959	17,603
Total operating revenues	<u>4,602,772</u>	<u>4,687,795</u>
Direct operating expenses:		
Operating expenses	14,526,963	12,729,006
Depreciation expense	1,695,424	1,709,593
Total direct operating expenses	<u>16,222,387</u>	<u>14,438,599</u>
Loss from operations	<u>(11,619,615)</u>	<u>(9,750,804)</u>
Nonoperating revenues, net:		
Interest Income	6,028	4,071
Interest Expense	(384,135)	(358,762)
Prior Years Questioned Costs-Federal Grants	-	(331,663)
Government operating grants	4,215,640	4,244,986
Hotel/motel tax	1,330,562	1,309,751
Other revenue	291,495	197,445
Loss on Disposal of Fixed Assets	(9,820)	-
Operating transfers from City-Parish Government	<u>3,747,200</u>	<u>3,225,210</u>
Total nonoperating revenues	<u>9,196,970</u>	<u>8,291,038</u>

**CAPITAL AREA TRANSIT SYSTEM
Management's Discussion and Analysis
For the Year ended December 31, 2006**

Net loss before capital contributions	(2,422,645)	(1,459,766)
Capital contributions	<u>761,518</u>	<u>730,696</u>
Net income (loss) after capital contributions	(1,661,127)	(729,070)
Net assets, beginning of year	<u>3,767,391</u>	<u>4,496,461</u>
Net assets, end of year	<u>\$ 2,106,264</u>	<u>\$ 3,767,391</u>

FINANCIAL OUTLOOK

The 2008 budget anticipates a slight increase in passenger fares and contract revenue, while federal grant revenues, taxes, and transfers from the City-Parish will remain constant. The System plans to maintain a careful watch over expenditures to help alleviate some of the expenses attributable to transit operations, such as rising fuel costs and maintenance of vehicles. Overall, the System is budgeted to operate at a break-even position.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide the community, the Council of the City-Parish, and other interested parties with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the System at (225) 389-8920.

CAPITAL AREA TRANSIT SYSTEM

BALANCE SHEETS - PROPRIETARY FUND

DECEMBER 31, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash and Cash Equivalents	\$ 322,641	\$ 288,445
Accounts Receivable	70,081	86,211
Due from Other Governments	632,690	955,266
Inventory	568,121	435,166
Prepaid Expenses and Other Assets	<u>-</u>	<u>17,471</u>
Total Current Assets	1,593,533	1,782,559
 Restricted Assets:		
Cash and Cash Equivalents	<u>29,941</u>	<u>211,849</u>
Total Restricted Assets	29,941	211,849
 Net Pension Asset, Long-Term	1,668,484	1,519,231
Equipment, Net	<u>8,908,465</u>	<u>10,652,113</u>
Total Assets	<u>\$ 12,200,423</u>	<u>\$ 14,165,752</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 846,696	\$ 913,642
Due to Federal Transit Administration	1,052,863	796,104
Accrued Compensated Absences	240,843	232,963
Deferred Revenue	-	54,464
Claims Payable and Related Liabilities	559,958	394,625
Capital Lease Payable	<u>602,854</u>	<u>576,893</u>
Total Current Liabilities	3,303,214	2,968,691
Long-Term Liabilities:		
Accrued Compensated Absences, Less Current Portion	361,265	349,445
Claims Payable and Related Liabilities, Less Current Portion	779,413	813,319
Capital Lease Payable, Less Current Portion	<u>5,650,267</u>	<u>6,266,906</u>
Total Long-Term Liabilities	<u>6,790,945</u>	<u>7,429,670</u>
Total Liabilities	10,094,159	10,398,361
Net Assets:		
Investment in Capital Assets, Net of Related Debt	2,655,344	3,808,314
Restricted	29,941	211,849
Unrestricted	<u>(579,021)</u>	<u>(252,772)</u>
Total Net Assets	<u>2,106,264</u>	<u>3,767,391</u>
Total Liabilities and Net Assets	<u><u>\$ 12,200,423</u></u>	<u><u>\$ 14,165,752</u></u>

CAPITAL AREA TRANSIT SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Charges for Services	\$ 4,593,813	\$ 4,670,192
Advertising Revenue	8,959	17,603
	<hr/>	<hr/>
Total Operating Revenues	4,602,772	4,687,795
Direct Operating Expenses:		
Personal Services and Fringe Benefits	8,251,228	7,463,521
Supplies, Fuel and Other Bus Related Expenses	2,370,269	2,140,321
Contractual Services & Liability Costs	3,905,466	3,125,164
Depreciation	1,695,424	1,709,593
	<hr/>	<hr/>
Total Direct Operating Expenses	16,222,387	14,438,599
Loss from Operations	(11,619,615)	(9,750,804)
Nonoperating Revenues (Expenses):		
Interest Income	6,028	4,071
Interest Expense	(384,135)	(358,762)
Prior Years Questioned Costs-Federal Grants	-	(331,663)
Government Operating Grants:		
Federal Operating Subsidy	4,074,388	4,085,089
Planning and Technical Study Grants	141,252	159,897
Hotel/Motel Tax	1,330,562	1,309,751
Loss on Disposal of Fixed Assets	(9,820)	-
Other Revenue	291,495	197,445
Operating Transfers from Primary Government	3,747,200	3,225,210
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	9,196,970	8,291,038
Loss Before Capital Contributions	(2,422,645)	(1,459,766)
Capital Contributions	761,518	730,696
	<hr/>	<hr/>
Net Loss after Capital Contributions	(1,661,127)	(729,070)
Net Assets, Beginning of Year	3,767,391	4,496,461
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Net Assets, End of Year	\$ 2,106,264	\$ 3,767,391
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The accompanying notes are an integral part of these statements.

CAPITAL AREA TRANSIT SYSTEM

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash Flows From Operating Activities:		
Cash Received from Customers	\$ 4,785,854	\$ 4,317,409
Cash Received from Other Sources	8,959	17,603
Cash Paid to Suppliers and Others	(6,572,303)	(5,854,613)
Cash Paid to Employees for Compensation and Related Expenses	(8,350,510)	(7,627,310)
Net Cash Used in Operating Activities:	(10,128,000)	(9,146,911)
Cash Flows From Noncapital Financing Activities:		
Operating Subsidies Received from Other Governments	4,730,534	5,180,994
Hotel-Motel Tax	1,308,851	1,128,528
Other Revenue	291,495	235,284
Operating Transfers Primary Government	3,747,200	3,225,210
Net Cash Provided by Noncapital Financing Activities	10,078,080	9,770,016
Cash Flows From Capital and Related Financing Activities:		
Capital Contributions Received	761,518	730,696
Payments on Capital Leases	(590,678)	(549,792)
Proceeds From Insurance Settlement	38,031	-
Acquisition and Construction of Capital Assets	-	(72,668)
Interest Paid on Capital Debt	(312,691)	(353,480)
Net Cash Used in Capital Financing Activities	(103,820)	(245,244)
Cash Flows From Investing Activities:		
Interest Received	6,028	4,071
Net Cash Provided by Investing Activities	6,028	4,071
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(147,712)</u>	<u>381,932</u>
Cash and Cash Equivalents at Beginning of Year	<u>500,294</u>	<u>118,362</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 352,582</u></u>	<u><u>\$ 500,294</u></u>
Reconciliation of Cash as Listed on the Balance Sheet:		
Unrestricted Cash	\$ 322,641	\$ 288,445
Restricted Cash	29,941	211,849
	<u><u>\$ 352,582</u></u>	<u><u>\$ 500,294</u></u>

(CONTINUED)

	<u>2007</u>	<u>2006</u>
Reconciliation of Loss from Operations to Net Cash Used in Operating Activities:		
Loss from Operations	\$ (11,619,615)	\$ (9,750,804)
Adjustments to Reconcile Loss from Operations to Net Cash Used in Operating Activities		
Depreciation	1,695,424	1,709,593
Loss on Disposal of Capital Assets	9,820	-
(Increase) Decrease in Accounts Receivable	16,130	(5,053)
(Increase) Decrease in Prepaid Assets	17,471	(3,556)
(Increase) Decrease in Net Pension Asset	(149,253)	(201,890)
(Increase) Decrease in Inventory	(132,955)	(199,944)
Increase (Decrease) in Accounts Payable, Accrued Expenses, and Deferred Revenues	(96,449)	(610,426)
Increase (Decrease) in the Provision for Claims Liability	<u>131,427</u>	<u>(84,831)</u>
Net Cash Used in Operating Activities	<u>\$ (10,128,000)</u>	<u>\$ (9,146,911)</u>

The accompanying notes are an integral part of these statements.

CAPITAL AREA TRANSIT SYSTEM

STATEMENTS OF PLAN NET ASSETS - PENSION TRUST FUND

DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Assets:		
Cash and Cash Equivalents	\$ 609,897	\$ 509,742
Receivables	10,297	7,840
Investments	<u>6,992,801</u>	<u>6,771,387</u>
Plan Net Assets Held in Trust for Pension Benefits	<u>\$ 7,612,995</u>	<u>\$ 7,288,969</u>

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUND

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Additions:		
Contributions:		
Employer Contributions	\$ 438,443	\$ 394,119
Employee Contributions	383,616	345,004
Other	<u>-</u>	<u>23,608</u>
Total Contributions	822,059	762,731
Investment Income:		
Investment and Dividend Income	298,337	212,171
Net Appreciation (Depreciation) in Fair Value	<u>(61,991)</u>	<u>535,591</u>
	236,346	747,762
Less Investment Expense	<u>(95,020)</u>	<u>(63,374)</u>
Net Investment Income	<u>141,326</u>	<u>684,388</u>
Total Additions	963,385	1,447,119
Deductions:		
Benefits	303,231	320,519
Employee Refunds	265,654	205,250
Administrative Expenses	<u>70,474</u>	<u>67,192</u>
Total Deductions	<u>639,359</u>	<u>592,961</u>
Change in Plan Net Assets	324,026	854,158
Plan Net Assets at Beginning of Year	<u>7,288,969</u>	<u>6,434,811</u>
Plan Net Assets at End of Year	<u><u>\$ 7,612,995</u></u>	<u><u>\$ 7,288,969</u></u>

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

Note 1 - Summary of Significant Accounting Policies -

Report Issued Under Separate Coverage

The Capital Area Transit System's ("the System") financial statements are an integral part of the City of Baton Rouge - Parish of East Baton Rouge's (City-Parish) Comprehensive Annual Financial Report (CAFR). The System has an operating agreement with the City Parish that addresses the use of City-Parish facilities as well as other operating matters.

Financial Reporting Entity

Capital Area Transit System is a corporation created by East Baton Rouge Parish to provide bus transportation services. In 2004, the Louisiana State Legislature enacted House Bill 1682, Act 581 to recognize the System as a political subdivision and provide that all its assets are public property. The Metropolitan Council exercises oversight over the System by approving fare changes and by approving operating subsidies from the City-Parish's general fund. Operating subsidies are also provided through federal grants. The fiscal year for the System and the City-Parish government is the calendar year.

Government Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, established criteria for determining which component units should be considered part of the City of Baton Rouge - Parish of East Baton Rouge for financial reporting purposes. The basic criteria are as follows:

1. Legal status of the potential component unit including the right to incur its own debt, levy of its own taxes and charges, expropriate property in its own name, sue and be sued, and the right to buy, sell and lease property in its own name.
2. Whether the City-Parish governing the System (Metropolitan Council or Mayor President) appoints a majority of board members of the potential component unit.
3. Fiscal interdependency between the City-Parish and the potential component unit.
4. Imposition of will by the City-Parish on the potential component unit.
5. Financial benefit/burden relationship between the City-Parish and the potential component unit.

Based on the previous criteria, the System is considered a component unit of the City of Baton Rouge, Parish of East Baton Rouge. In addition, based on the previous criteria, the System's management has included the Capital Area Transit System's Employees' Pension Trust Fund as a Blended Component Unit within the financial statements of the System.

The Capital Area Transit System Employees' Pension Trust Fund (the Trust) exists for the benefit of current and former System employees who are members of the plan. The Trust is governed by an equal number of Employer Trustees and Union Trustees.

Currently, the Trust is governed by a four member board composed of two members representing the Employer Trustees and two members elected as Union Trustees. The Trust is funded by the investment of the contributions from the System and member employees who are obligated to make the contributions to the Trust. The Trust does not issue a separately issued audit report.

Measurement Focus, Basis of Accounting and Presentation

The accounting policies of the System conform to accounting principles generally accepted in the United States of America as applicable to governments. The proprietary fund and the pension trust fund financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. The System uses fund accounting to report its financial position and results of operations. The operations of each fund are accounted for with a set of self balancing accounts that comprise its assets, liabilities, net assets, revenue, and expenses. The System has no governmental funds. A further explanation of the funds and their reporting classifications follows:

Proprietary Fund

Enterprise Fund - Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or change in net assets is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Accordingly, the System maintains its records on the accrual basis of accounting. Revenue from operations, investments and other sources are recorded when earned. Revenue received in advance is reflected as deferred revenue. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

The System applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict or contradict GASB pronouncements.

Fiduciary Fund

Pension Trust Fund is used to account for the accumulation of contributions for a defined benefit single employer pension plan providing retirement benefits to qualified employees.

The Pension Trust Fund's financial statements are prepared on the accrual basis of accounting. Contributions from the System and its employees are recognized as revenue in the period in which employees provide service to the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Restricted Assets and Liabilities

Certain assets, consisting of cash and cash equivalents, are segregated and classified as restricted assets which may not be used except in accordance with contractual terms, under certain conditions. These assets consist of a certificate of deposit restricted for insurance and held by the State of Louisiana and cash related to federal grants and related matching.

Investments

Investments are stated at fair value based on quoted prices. The change in fair value is recognized in operations.

Inventories

Inventories, principally repair parts and supplies, are stated at cost, which approximates market. Cost is determined by the first-in, first-out method.

Equipment

Equipment is recorded at cost. Depreciation or amortization is charged to expense over the estimated useful lives of the assets and is determined using the straight-line method. Expenditures for maintenance and repairs which do not materially extend the useful life of the assets are charged to expense as incurred. Useful lives for equipment used in computing depreciation range from 12 years for rolling stock to 3 years for certain office equipment.

Federal Grants and Dedicated Taxes

Federal grants are made available to the System for the acquisition of public transit facilities, buses and other transit equipment. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are recognized at that point in time when the right to the funds becomes irrevocable. Where the expenditure of funds is the prime factor for determining the eligibility for the grant proceeds, the revenue is recognized at the time when the expense is incurred.

In addition to Federal grants, the System is the recipient of monies established under R.S. 47:302.29(B) and R.S. 47:322.1, which sets aside the Louisiana State sales tax on hotel occupancy. These monies are provided into the East Baton Rouge Parish Community Improvement Fund (Improvement Fund). The System's share of these funds shall not be used to displace, replace or supplant funds previously appropriated or otherwise used for urban mass transit purposes. The monies in the Improvement Fund are appropriated annually by the State legislature. In addition, the System also receives monies from the East Baton Rouge Enhancement Fund (Enhancement Fund), which has similar restrictions and is created by the State legislature.

Compensated Absences

Employees earn vacation and sick leave in varying amounts according to continuing years of service as follows:

<u>Years of Service</u>	<u>Vacation</u>	<u>Sick</u>
0	None	1 day/month
1	7 days per year	1 day/month
2	13 days per year	1 day/month
6	17 days per year	1 day/month
15	24 days per year	1 day/month

Vacation must be taken by December 31, or it is lost for the union employees. For the non-union employees unused vacation can be carried forward to the next year. Sick leave is accumulated without time limitations and there is no limitation as to the amount paid upon termination or retirement. Vacation and sick leave are accrued as earned.

Claims and Judgments

The System provides for losses, including any anticipated related expenses, resulting from claims and judgments. A liability for such losses, (including related out-of-pocket expenses) is reported when it is probable that a loss has occurred and the amount can be reasonably estimated.

Cash Flows

For the purposes of the statements of cash flows, cash and cash equivalents include all highly liquid investments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Equity Classifications

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets - This component of net asset consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Operating vs. Non-Operating Revenue

The System recognizes rider fares, contracted fare services and advertising revenue as operating. All other revenues, including federal and state grants, and operating subsidies from the primary government are recognized as non-operating.

Receivables

Receivables consist of all revenues earned at year end and not yet received. Uncollectable accounts receivable are charged off directly against earnings when they are determined to be uncollectable. Use of this method does not result in a material difference from the valuation method required by general accepted accounting principles.

Reclassifications

Certain amounts presented in the 2006 columns have been reclassified from prior year's presentation to conform to the current year classifications. Such reclassifications had no effect on the prior year determination of restricted and unrestricted net assets.

Note 2 - Cash and Investments -

Cash and Cash Equivalents

The System's cash and cash equivalents consisted of the following as of December 31, 2007 and 2006:

	2007		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
Cash on Hand and in Banks	\$ 237,558	\$ -	\$ 237,558
Certificates of Deposit	115,024	-	115,024
Money Market Accounts	-	609,897	609,897
Total Cash and Cash Equivalents	\$ 352,582	\$ 609,897	\$ 962,479
	2006		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
Cash on Hand and in Banks	\$ 391,147	\$ -	\$ 391,147
Certificates of Deposit	109,147	-	109,147
Money Market Accounts	-	509,742	509,742
Total Cash and Cash Equivalents	\$ 500,294	\$ 509,742	\$1,010,036

Proprietary Fund cash and cash equivalents of \$352,582 and \$500,294 include \$322,641 and \$288,445 of unrestricted assets and \$29,941 and \$211,849 of restricted assets as of December 31, 2007 and 2006, respectively.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Neither the System nor the Pension Trust Fund, a blended presented component unit, has a deposit policy for custodial credit risk. As of December 31, 2007, \$632,635 of the government's bank balance of \$842,964 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the government's name or was uninsured and uncollateralized. The balance that was uninsured and uncollateralized was \$9,324. As of the same date the Pensions Trust Fund held no deposits with exposure to custodial credit risk because it only held money market accounts held in trust that are not categorized under GASB 3 requirements.

Statutes authorize the System's proprietary fund to invest in direct United States Treasury obligations; bonds, debentures, notes or other indebtedness issues or guaranteed by U.S. Government Instrumentalities which are federally sponsored or federal agencies that are backed by the full faith and credit of the United States; short-term repurchase agreements; and time certificates of deposit at financial institutions, state banks and national banks having their principal offices in Louisiana.

As of December 31, 2007 and 2006, certificates of deposit of \$115,024 and \$109,147 were pledged as collateral to the Louisiana Office of Workman's Compensation.

Investments

As of December 31, 2007 and 2006, assets classified as investments existed only in the Pension Trust Fund (the Trust). The assets of the Trust are invested in accordance with the investment policy of the Plan. Those assets are as follows:

	<u>Fair Values</u>	
	<u>2007</u>	<u>2006</u>
U.S. Treasury and Agency Bonds	\$ 860,942	\$ 817,984
Corporate Bonds	201,863	190,537
Corporate Stocks	5,507,692	5,552,672
Equity Mutual Fund	<u>422,304</u>	<u>210,194</u>
Total	<u>\$ 6,992,801</u>	<u>\$ 6,771,387</u>

As of December 31, 2007, the debt maturities of the Pension Trust Fund's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
US Treasury and Agency Funds	\$ 860,942	\$ 87,818	\$ 138,644	\$ 70,998	\$ 563,482
Corporate Bonds	<u>201,863</u>	<u>-</u>	<u>132,208</u>	<u>69,655</u>	<u>-</u>
	<u>\$ 1,062,805</u>	<u>\$ 87,818</u>	<u>\$ 270,852</u>	<u>\$ 140,653</u>	<u>\$ 563,482</u>

Interest rate risk. In accordance with its investment policy, the Pension Trust Fund manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten years with a maximum maturity for any single security of 30 years.

Credit risk. The investment policy of the Pension Trust Fund limits investments in commercial paper and corporate bonds to ratings of A-1 and BBB or higher as rated by the nationally recognized statistical rating organizations (NRSROs). As of December 31, 2007, the Pension Trust Fund held no commercial paper investments. The Pension Trust Fund's investments in domestic corporate bonds as of December 31, 2007 varied between ratings of A and AAA consistent with the investment policy. The Pension Trust Fund's investments in U.S. Agencies all carry the explicit guarantee of the U.S. government.

Concentration of credit risk. The Pension Trust Fund's investment policy does not allow for an investment in any one issuer that is in excess of fifteen percent of the fund's total investments and no more than 30% of the total investment in any one industry.

Custodial credit risk - investments. For an investment this is the risk that, in the event of the failure of the counterparty, the Pension Trust Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty, or by the counterparty's trust department or agent, but not in the Pension Trust Fund's name. At December 31, 2007, all of the Pension Trust Fund's investments were held by an agent in the name of the Pension Trust Fund.

Note 3 - Receivables - Due From Other Governments -

Receivables due from other governments at December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Federal Transit Administration	\$ 407,242	\$ 532,196
Hotel - Motel Tax	225,448	247,159
Federal Emergency Management Agency	<u>-</u>	<u>175,911</u>
	<u>\$ 632,690</u>	<u>\$ 955,266</u>

Note 4 - Equipment -

A summary of changes in fixed assets follows:

	<u>January 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2007</u>
Equipment, Primarily				
Transportation Vehicles	\$ 18,061,676	\$ -	\$ (110,979)	\$ 17,950,697
Accumulated Depreciation	<u>(7,409,563)</u>	<u>(1,695,424)</u>	<u>62,755</u>	<u>(9,042,232)</u>
Total	<u>\$ 10,652,113</u>	<u>\$ (1,695,424)</u>	<u>\$ (48,224)</u>	<u>\$ 8,908,465</u>

	<u>January 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2006</u>
Equipment, Primarily				
Transportation Vehicles	\$17,989,010	\$ 72,666	\$ -	\$ 18,061,676
Accumulated Depreciation	<u>(5,699,972)</u>	<u>(1,709,591)</u>	<u>-</u>	<u>(7,409,563)</u>
Total	<u>\$ 12,289,038</u>	<u>\$ (1,636,925)</u>	<u>\$ -</u>	<u>\$ 10,652,113</u>

Depreciation expense for the year ended December 31, 2007 and 2006 totaled \$1,695,424 and \$1,709,593, respectively. The City-Parish (Primary Government) owns the terminal, administrative office building and related land which are used by the System for its operations. The City-Parish provides these facilities and land to the System at no charge through an operating agreement.

Note 5 - Accounts, Salaries and Other Payables -

The payables at December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Accounts Payable	\$ 578,080	\$ 670,036
Accrued Salaries	174,255	122,603
Employee Insurance and Other		
Withholdings	30,186	51,567
Accrued Interest	<u>64,175</u>	<u>69,436</u>
	<u>\$ 846,696</u>	<u>\$ 913,642</u>

Note 6 - Working Capital -

Operations of the System are subsidized by the Federal and local governments through various cash grants and appropriations. These subsidies are reported under the caption of non-operating revenue as government operating grants and as operating transfers from the primary government in the statement of revenues, expenses and changes in net assets.

Note 7 - Pension Plan -

The System, as well as covered employees, makes contributions to the Capital Area Transit System Pension Trust Fund (Plan), a defined benefit single employer pension plan. The Plan is administered by a local actuarial consulting company, under the direction of a Board of Trustees. All full time employees become eligible for participation upon the date entering covered employment. Prior to August 2006, the normal retirement date is the first day of the month following a member's 65th birthday and completion of 10 years of service. In August 2006, the plan was amended and the age was reduced to 62 years. Benefits vest after ten years of service. A participant was entitled to a monthly normal retirement benefit beginning on his normal retirement date in an amount of 1.2% of average compensation for each year of service after February 1, 1963. Effective August 2006, the Plan was amended and the percentage was changed to 1.4% for all plan years beginning January 1, 1991.

Average compensation is determined as the average of the five consecutive plan years of compensation that produces the highest average. Early retirement is permitted for participants who have 15 years of service (five of which is after February 1, 1973) and who have attained age 55; early retirement benefits are reduced from normal retirement benefits. Membership, pension benefit obligation, and other pension information are obtained from the Plan's Annual Actuarial Valuation Reports as of December 31, 2007 and 2006. The valuation is performed at the beginning of the plan year.

Current membership is comprised of the following at December 31:

	<u>2007</u>	<u>2006</u>
Retirees and Beneficiaries Currently Receiving Benefits	54	49
Vested Terminated Employees	16	18
Active Employees:		
Fully Vested	38	37
Not Vested	<u>115</u>	<u>112</u>
	<u>223</u>	<u>216</u>

For the years ended December 31, 2007 and 2006, the System had an annual payroll of approximately \$6,400,000 and \$5,900,000. Total annual covered payroll for the years ended December 31, 2007 and 2006 was \$5,276,945 and \$4,820,357, respectively.

The employees and the System each contributed, as required, 7% and 8%, of each employee's salary. For the plan year beginning February 1, 1995, the System's pension plan was granted "qualified" status by the IRS which enables contributions to the plan to be non-taxable to the employee. The plan's long-range ability to pay benefits also depends on the future financial health of the Corporation.

Key actuarial assumptions include 7% interest compounded annually, mortality tables from the 1994 Uninsured Mortality Table for males and females, anticipated turnover and disability rates ranging from 0.11% to 5.10% based on age of employee, and salary increases of 5.75% annually. The actuarial cost method is the aggregate actuarial cost method with allocation based on earnings. Asset valuation method is based on the current market value as of the last day of the prior plan year.

The System's annual pension cost and net pension asset for the years ended December 31, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Annual Required Contribution	\$ 268,774	\$ 175,115
Interest on Net Pension Obligation	(106,346)	(92,214)
Adjustment to Annual Required Contribution	<u>141,847</u>	<u>122,889</u>
Annual Pension Cost	304,276	205,790
Contributions Made	<u>(453,529)</u>	<u>(407,680)</u>
Increase in Net Pension Asset	149,253	201,890
Net Pension Asset, Beginning of Year	<u>1,519,231</u>	<u>1,317,341</u>
Net Pension Asset, End of Year	<u>\$ 1,668,484</u>	<u>\$ 1,519,231</u>

Trend information is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
December 31, 2007	\$ 304,276	149%	\$ 1,668,484
December 31, 2006	\$ 205,790	198%	\$ 1,519,231
December 31, 2005	\$ 218,460	163%	\$ 1,317,341

Note 8 - Deferred Compensation Plan -

The System offers its employees participation in the Louisiana Public Employees' Deferred Compensation Plan (Compensation Plan), created by Louisiana Revised Statutes and in accordance with Section 457 of the Internal Revenue Code. The Compensation Plan is available to all full time employees and permits them to defer a portion of their salary until future years. The assets of the Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters.

Note 9 - Commitments and Contingencies -

Contingencies

The System receives financial assistance directly from federal agencies which are subject to compliance audits under OMB Circular A-133 (Single Audit) and monitoring reviews by the granting agencies. As a result, amounts might be subject to disallowance upon acceptance of the audits and monitoring reviews by the federal granting agencies. The Single Audit performed for the years 2004, 2005, and 2006 revealed cumulative questioned costs of \$731,292. The cumulative questioned costs for these years plus the estimated accrued interest payable of \$130,489 has been accrued in these financial statements and is included in the Due to Federal Transit Administration amount at December 31, 2007.

The Single Audit performed for the 2007 year revealed various questioned costs of \$179,948. This amount includes inappropriate grant funds received on CMAQ expired routes. The liability for these questioned costs plus the estimated accrued interest payable of \$11,134 has been accrued in these financial statements and is included in the Due to Federal Transit Administration amount at December 31, 2007. Details concerning these findings are included in a separate single audit report dated June 18, 2008.

On April 23, 2007, the System received written notification from the Federal Transit Administration ("FTA") that these findings and questioned costs mentioned above have been reviewed by FTA and all findings have to be adequately addressed within 45 days of the System's receipt of the letter. The System developed a strategy to address the findings and submitted a plan for repayment to the FTA. As of the date of our report, the System is working with the FTA to determine the repayment terms and no repayment has been made to the FTA.

In April 2008, the System received allegations of employee impropriety. As a result of an internal investigation, the employee responsible for the improprieties was terminated. The effects of these improprieties are believed to be immaterial to the System's financial statements; however, as of the date of our report the System is still trying to quantify the loss. Therefore, no adjustment has been reflected in these financial statements. The System has reported this matter to the Louisiana Legislative Auditor, the East Baton Rouge Parish District Attorney, and the Louisiana Board of Ethics.

Grant Commitments

Grant agreements under which the system receives federal financial assistance require the system to match 17%-20% of dollars received. As of December 31, 2007, the System has committed restricted cash to fund local matching requirements, however, additional fiscal effort will be required. Similar commitments existed as of December 31, 2006.

Note 10 - Self-insurance and Legal Claims -

The System is exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The System manages its exposure to losses through a self-insurance program. For quite some time, including the period January 1, 2004 through August 31, 2004, the System retained liability for the first \$250,000 for general liability claims and workers' compensation claims. Excess general liability claims were commercially insured up to \$750,000. Beginning September 1, 2004, the System cancelled its commercial policy and thus became self-insured for all bodily injury and property damage tort claims, in addition to workers' compensation claims. At December 31, 2007 and 2006, accrued claim liabilities of \$1,339,371 and \$1,207,944, are included on the Proprietary Fund's statement of net assets, as follows:

	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
2007	\$ 559,958	\$ 779,413	\$1,339,371
2006	\$ 394,625	\$ 813,319	\$1,207,944

The accruals, which are based upon the advice of counsel, are in the opinion of management, sufficient to provide for all probable estimatable claims liabilities at December 31, 2007 and 2006. In addition, the claims will not be paid until appropriated by the System. Changes in claims liability during the years ended December 31 are as follows:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Year End</u>
2007	\$1,207,944	\$ 937,234	\$(805,807)	\$1,339,371
2006	\$1,292,775	\$ 227,644	\$(312,475)	\$1,207,944

Note 11 - Significant Sales Contract -

The System provides transportation services to Louisiana State University (LSU) under an agreement with LSU's Board of Supervisors. Under this agreement, the System provides LSU with passenger buses, personnel, and supplies to operate a mass transit system. As consideration for the service rendered, LSU paid the System approximately \$2,243,000 and \$2,118,000 during 2007 and 2006. These amounts are included in charges for services on the statements of revenues, expenses and changes in net assets. Management expects that the contract will be renewed.

Note 12 - Capital Lease Obligation -

The System is the lessee of 28 Blue Bird transit buses and 5 Federal Coach vans under two separate lease agreements with First Security Leasing, Inc. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the minimum lease payments as of the inception date.

Changes in the capital lease liability during the years ended December 31, 2007 and 2006 are as follows:

	<u>Beginning of Year Liability</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>End of Year Liability</u>	<u>Due Within One Year</u>
2007	\$ 6,843,799	\$ -	\$ (590,678)	\$ 6,253,121	\$ 602,854
2006	\$ 7,393,591	\$ -	\$ (549,792)	\$ 6,843,799	\$ 576,893

Minimum future lease payments under these capital leases as of December 31, 2007 for each of the next five years and each subsequent five year period are:

<u>Year ended December 31,</u>	<u>Amount</u>
2008	\$ 903,248
2009	903,248
2010	903,248
2011	903,248
2012	833,704
2013 - 2016	<u>3,334,816</u>
Total minimum lease payments	7,781,512
Less: Amount representing interest	<u>(1,528,391)</u>
Present value of minimum lease payments	<u>\$ 6,253,121</u>

The interest rates on the capital leases range from 4.87% to 4.92%.

Note 13 - Current Operating Environment -

As shown in the accompanying financial statements, the System experienced a net loss before capital contributions of \$2,422,645 and a bottom line net loss of \$1,661,127 during the year ended December 31, 2007. In addition, current liabilities as of the year ended exceeded current assets by \$1,709,681 signifying marginal ability to satisfy current obligations in the normal course of operations. The System is dependent on federal and local subsidies to cover the shortfall of passenger revenues over expenses. Efforts to reverse the trend of operating losses include negotiating with the universities on the hourly rate of service and reimbursement for the cost of fuel adjustments, cuts to the number of vehicles on several routes, combining routes and/or eliminating service in certain areas, and working with their attorney to research the availability of additional funds the System may be entitled to.

Note 14 - Concentrations -

Substantially all non-management employees are covered under a collective bargaining agreement.

CAPITAL AREA TRANSIT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB STATEMENT NO. 25

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Payroll</u>
January 1, 2008	\$ 7,612,995	\$ 7,749,081	\$ 136,086	98.24%	\$ 5,276,945	2.58%
January 1, 2007	\$ 6,936,692	\$ 7,223,985	\$ 287,293	96.02%	\$ 4,820,357	5.96%
January 1, 2006	\$ 6,305,722	\$ 5,768,124	\$ N/A	109.32%	\$ 4,784,924	N/A
January 1, 2005	\$ 5,584,893	\$ 5,428,930	\$ N/A	102.87%	\$ 4,623,606	N/A
January 1, 2004	\$ 4,986,296	\$ N/A	\$ N/A	N/A	\$ 4,149,773	N/A
January 1, 2003	\$ 4,160,734	\$ 4,309,796	\$ 149,062	96.54%	\$ 3,991,134	3.73%
January 1, 2002	\$ 4,244,806	\$ 4,763,742	\$ 518,936	89.11%	\$ 4,368,258	11.88%
January 1, 2001	\$ 4,113,469	\$ 4,113,469	\$ N/A	100.00%	\$ 4,099,654	0.00%
January 1, 2000	\$ 3,752,507	\$ 3,752,507	\$ N/A	100.00%	\$ 3,917,671	0.00%
January 31, 1999	\$ 2,476,580	\$ 2,814,804	\$ 338,224	87.98%	\$ 2,569,374	13.16%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
December 31, 2007	\$ 268,774	\$ 438,443	163.13%
December 31, 2006	\$ 175,115	\$ 394,119	225.06%
December 31, 2005	\$ 190,796	\$ 355,099	186.11%
December 31, 2004	\$ 174,075	\$ 370,342	212.75%
December 31, 2003	\$ 207,283	\$ 350,140	168.92%
December 31, 2002	\$ 217,556	\$ 333,469	153.28%
December 31, 2001	\$ 106,152	\$ 297,684	280.43%
December 31, 2000	\$ 100,051	\$ 296,920	296.77%
December 31, 1999	\$ 115,024	\$ 230,118	200.06%
January 31, 1999	\$ 107,195	\$ 192,713	179.78%

NOTES TO THE SCHEDULES OF TREND INFORMATION LISTED ABOVE

The information presented above was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date December 31, 2007

Actuarial Cost Method Aggregate actuarial method. Under this method, a separate actuarial accrued liability and unfunded liability is not identified or amortized. In years prior to January 1, 2003, the System used the frozen entry age normal method.

Amortization Method	N/A
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Remaining Amortization Period	N/A
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Asset Valuation Method	Current market value as of the last day of the plan year adjusted to smooth realized and unrealized capital gains and losses over a three year period by deferring one-third of such gains or losses accrued in the prior fiscal year and two-thirds of such gains or losses accrued in the current fiscal year.
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Actuarial Assumptions:

Investment Rate of Return	7%
Projected Salary Increases	5.75%

CAPITAL AREA TRANSIT SYSTEM

SINGLE AUDIT REPORTS

DECEMBER 31, 2007

BATON ROUGE, LOUISIANA

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OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
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GOVERNMENT AUDITING STANDARDS



Hannis T. Bourgeois, LLP

Certified Public Accountants

Randy J. Bonneau, CPA*
Joseph D. Richard, Jr., CPA*
Ronnie E. Stamper, CPA*
Fernand P. Genre, CPA*
Stephen M. Huggins, CPA*
Monica L. Zumo, CPA*
Ronald L. Gagnet, CPA*
Douglas J. Nelson, CPA*
Celeste D. Viator, CPA*
Laura E. Monroe, CPA*
R. David Wascom, CPA*

*A Professional Accounting Corporation

2322 Tremont Drive
Baton Rouge, LA 70809
Phone: (225) 928-4770
Fax: (225) 926-0945

*Members American Institute of
Certified Public Accountants*

1175 Del Este Avenue, Suite B
Denham Springs, LA 70726

www.htbcpa.com

June 18, 2008

To the Board of Directors
Capital Area Transit System
Baton Rouge, Louisiana

We have audited the financial statements of Capital Area Transit System (the System) as of and for the year ended December 31, 2007, and have issued our report thereon dated June 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal control. We considered the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal

control over financial reporting. These deficiencies are listed as findings 2007-1 through 2007-3. We also noted other matters involving internal control over financial reporting that we have reported to management of the System in a separate letter dated June 18, 2008.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the System's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclosed all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 to 2007-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the System in a separate letter dated June 18, 2008.

This report is intended solely for the information of management and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannia T. Bourgeois, LLP

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133



Hannis T. Bourgeois, LLP

Certified Public Accountants

Randy J. Bonnacaze, CPA*
Joseph D. Richard, Jr., CPA*
Ronnie E. Stamper, CPA*
Fernand P. Genre, CPA*
Stephen M. Huggins, CPA*
Monica L. Zumo, CPA*
Ronald L. Gagnet, CPA*
Douglas J. Nelson, CPA*
Celeste D. Viator, CPA*
Laura E. Monroe, CPA*
R. David Wascom, CPA*

2322 Tremont Drive
Baton Rouge, LA 70809
Phone: (225) 928-4770
Fax: (225) 926-0945

*Members American Institute of
Certified Public Accountants*

1175 Del Este Avenue, Suite B
Denham Springs, LA 70726

www.htbcpa.com

*A Professional Accounting Corporation

June 18, 2008

To the Board of Directors
Capital Area Transit System
Baton Rouge, Louisiana

Compliance

We have audited the compliance of the Capital Area Transit System (the System) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. The System's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the System's compliance with those requirements.

As described in items 2007-4 through 2007-7 in the accompanying schedule of findings and questioned costs, the System did not comply with requirements regarding allowable costs and reporting that are applicable to its major federal program. Compliance with such requirements is necessary, in our opinion for the System to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the System complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control

over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the System's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the System's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-5 through 2007-7 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2007-4 to be a material weakness.

The System's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the System's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the System as of and for the year ended December 31, 2007 and have issued our report thereon dated June 18, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the System's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of management, the Office of the Legislative Auditor, State of Louisiana, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannia T. Bourgeois, LLP

CAPITAL AREA TRANSIT SYSTEM

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Federal Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Project Number</u>	<u>Expenditures</u>
<u>Federal Transit Administration:</u>			
2003 Formula Grant	20.507	LA-90-X250-04	\$ 86,583
2004 Formula Grant	20.507	LA-90-X268-00	41,455
2005 Formula Grant	20.507	LA-90-X281-00	48,848
2005 Formula Grant	20.507	LA-90-X281-04	153,506
2006 Formula Grant	20.507	LA-90-X289-00	1,767,667
2006 Formula Grant	20.507	LA-90-X289-02	142,955
2007 Formula Grant	20.507	LA-90-X308-00	2,338,646
2006 Formula Grant	20.507	LA-04-0007-00	<u>345,987</u>
Total Federal Award Expenditures			<u>\$ 4,925,647</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CAPITAL AREA TRANSIT SYSTEM

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2007

Note 1 - General -

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of Capital Area Transit System (the System). The System's reporting entity is defined in Note 1 to the financial statements for the year ended December 31, 2007. All federal awards received from federal agencies are included on the schedule.

Note 2 - Basis of Accounting -

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the System's financial statements for the year ended December 31, 2007.

Note 3 - Relationship to Financial Statements -

Amounts reported in the Schedule of Expenditures of Federal Awards agree with the amounts reported in the related financial reports.

CAPITAL AREA TRANSIT SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2007

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified, with an emphasis of a matter regarding the System's ability to continue as a going concern.

- Material weakness(es) identified? ☒ Yes ☐ no
- Significant deficiency(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ none reported

Noncompliance material to financial statements noted? ☒ Yes ☐ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☒ Yes ☐ no
- Significant deficiency(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ none reported

Type of auditors' report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?

☒ Yes ☐ no

Identification of major program:

CFDA Number
20.507

Name of Federal Program
Federal Transportation Administration

- The threshold for distinguishing types A & B programs was program expenditures exceeding \$300,000.
- The System did not qualify as a low-risk auditee.

(2) Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards*:

Significant Deficiencies were noted as follows:

2007-1 – Bus and Workers Compensation Liability

Finding:

During the current year, it was noted that the System had failed to adjust the contingent liability related to the various bus and workers compensation claims during 2007. Upon our request, the accounting department contacted their attorneys and third party administrator to request the information needed to adjust the liability at December 31, 2007. With our assistance, the necessary adjustments were made to adjust the liability to actual at December 31, 2007. The adjustments recorded to the financial statements for the bus and workers compensation liability were \$253,006 and \$110,146, respectively.

Recommendation:

It is imperative for the System to reconcile these liabilities during the year as the amounts are material to the financial statements. We recommend the System work closely with their attorneys and third party administrator to reconcile these general ledger accounts to the estimated future liability at least on a quarterly basis.

2007-2 – Accrued Salaries

Finding:

During the current year, it was noted the System's accrued salaries at December 31, 2007 was calculated incorrectly. The System's calculation included two days of accrued salaries; however, there should have been nine days of accrued salaries at December 31, 2007. This error resulted in an adjusting journal entry of approximately \$130,000 which was recorded to the financial statements.

Recommendation:

We recommend the System review the payroll period for which salary is being accrued to ensure the number of days included in the calculation is correct. This will ensure management that the financial information presented to the board is accurate.

2007-3 – Fixed Assets

Finding:

During the current year, the System performed a physical inventory of fixed assets. As a result of this inventory, it was noted that numerous assets were no longer in service but were still recorded on the fixed asset listing and the general ledger. The assets were either sent to the City Parish as surplus property or had been damaged and no longer in service. Also during the current year, a vehicle was totaled and the System received insurance proceeds to cover the damages. These deletions were made to the System's fixed asset listing, but were not posted to the general ledger. We proposed entries totaling approximately \$111,000 to delete these assets and balance the general ledger to the fixed asset listing. Many of these assets were fully depreciated. Although there were no fixed asset additions during the current year, the accounting department is not reconciling the fixed asset listing to the general ledger during the year.

Recommendation:

It is crucial for the System's accounting department to reconcile the fixed assets listing to the general ledger throughout the year, as fixed assets comprise the majority of the System's assets at December 31, 2007. We recommend that system personnel continue to perform an annual physical inventory of the fixed assets to ensure the fixed asset listing is complete.

(3) Findings Relating to Compliance and Other Matters:

None

(4) Findings and Questioned Cost Related to Federal Awards:

Finding 2007- 4

Compliance Area: Expired CMAQ Routes

	<u>Questioned Costs</u>	<u>Estimated Accrued Interest Payable</u>
Grant Year and No.: 2003 Formula Grant/LA-90-X250-00	\$ 179,948	\$ 11,134

Total Questioned Cost: \$191,082

Criteria:

CMAQ routes are only eligible for funding by the FTA for a three year period starting from their inception dates.

Condition:

The System requested and received inappropriate amounts from the FTA for three CMAQ routes that expired during the 4th Quarter of 2006, since expiration dates were not being monitored. These over reimbursements were in the amount of \$179,948. These amounts are in addition to the amounts reported in the 2006 Single Audit Report.

Effect:

As noted above, the System was over reimbursed \$179,948 during 2007 for the expired routes.

Recommendation:

We recommend a schedule of all CMAQ routes be maintained indicating their inception dates and expiration dates. These schedules should be monitored for upcoming expirations. This information should be communicated to the accounting department so no additional funds are requested upon expiration of routes. As of the date of our report, the System is working with the FTA to establish the repayment terms, and no repayments have been made.

Finding 2007-5

Compliance Area: Quarterly Reporting and Reconciliation of Reports.

Grant Year and No.: All projects reported under Schedule of Federal Awards
Questioned Cost: N/A

Criteria:

Quarterly Financial Status Reports (FSRs) are required to be filed with the FTA within 30 days after the end of each quarter. These reports are based on information obtained from the monthly ECHO reports and are required to be transmitted electronically through the FTA's TEAM reporting system.

Condition:

The System did not submit the quarterly FSR for the first quarter of 2007. In addition, the quarterly FSR for the second calendar quarter of 2007 was not submitted for LA-90-X289-01. For the quarterly reports that were submitted during the third and fourth calendar of 2007, we attempted to reconcile these reports to the monthly ECHO request but were unable to do so.

Effect:

The System did not comply with FTA quarterly reporting requirements as the required reports were not filed or amounts reported did not reconcile to the monthly ECHO information.

Recommendation:

We recommend management amend all incorrectly submitted quarterly reports with the FTA and implement new procedures to ensure that all information per the quarterly reports are reconciled to the monthly reports prior to submission to the FTA. Also, a file should be maintained that contains a hard copy of the quarterly forms along with all supporting documentation. It is imperative that these quarterly reports be amended immediately. These reports serve as the primary tracking system of federal grant expenses and drawdowns.

Finding 2007-6

Compliance Area: Quarterly Reporting and Reconciliation of Reports

Grant Year and No.: All projects reported under Schedule of Federal Awards

Questioned Cost: N/A

Criteria:

Quarterly Financial Status Reports (FSRs) and Quarterly Narrative Reports (QNRs) are required to be filed with the FTA within 30 days after the end of each quarter. These reports should contain accurate and reliable financial data for the period reported.

Condition:

The System did not prepare the ECHO request for the May expenditures in a timely manner. Therefore, the quarterly reporting did not accurately depict the federal expenditures during the second calendar quarter of 2007.

Effect:

The financial reports submitted to the FTA did not contain current financial data that is consistent with the basis of accounting used by the System.

Recommendation:

We recommend that the System should file all of its financial reports on the same basis (accrual) as it reports its financial statements and those reports should contain financial transactions for that same period.

Finding 2007-7

Compliance Area: Earmarking

Grant Year and No.: 2007 Formula Grant/LA-90-X308-00 \$ 43,138

Criteria:

One percent of the Formula Grant fund apportioned must be made available for transit enhancement activities.

Condition:

The System did not earmark one percentage of the 2007 Formula Grant for transit enhancements.

Effect:

The System did not comply with FTA earmarking requirements as the amounts were not set aside in the grant budget (scope).

Recommendation:

We recommend that the System amend the scope of the grant to include a one percent transit enhancement category.

CAPITAL AREA TRANSIT SYSTEM

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

(1) Financial Statement Audit:

Significant deficiencies in the prior years were noted as follows:

2006-1 - Overall Lack of Preparation of Reconciliations and Review Thereof -

Finding:

During our prior year audit, we noted an overall lack of preparation of timely reconciliations of the various accounts comprising the major accounting cycles of the System including but not limited to cash, accounts receivable, accounts payable, accrued liabilities, grant revenues, etc. Numerous accounts had significant outages that had to be researched and several adjusting journal entries were necessary to correct these accounts. Various specific outages caused by the lack of timely reconciliations are further discussed below.

Recommendation:

We recommended that formal reconciliations be prepared on all of the various accounts that comprise the major accounting cycles of the System. These reconciliations should be prepared on a monthly basis. A formal reconciliation form should be developed for each account that should be completed and initialed by the preparer and then reviewed and initialed by the CFO. Any unreconciled outages should be investigated and resolved accordingly. It is imperative that these reconciliations be done on a timely basis. By implementing these procedures, the overall accuracy and timeliness of financial reporting will be vastly improved.

Corrective Action Taken:

During the current year, the System began preparing various reconciliations for the various accounts that comprise its major accounting cycles.

2006-2 - Failure to Close the 2005 Fiscal Year and Reverse Prior Year Audit Adjustments

Finding:

During the prior year it was noted that the 2005 revenue and expenses had not been closed out to retained earnings in the general ledger as is the proper accounting treatment. Also, all of the prior year audit adjustments had not been properly reversed on the System's books. We were informed that the books for 2005 had not been closed due to a software problem, however the close out process could have been accomplished through a manual journal entry. For purposes of our audit, the prior year revenue and expense numbers had to be subtracted out of the cumulative December 31, 2006 amounts per the general ledger in order to obtain only the 2006 transactions.

Recommendation:

It is imperative that the proper close out procedures be performed at the end of each fiscal year. Also, all audit adjustments should be recorded and reversed if applicable in a timely manner. These procedures are critical for an accurate set of financial records to be maintained. If the problem in closing the books is in fact due to the software, Management should contact the vendor to correct this problem.

Corrective Action Taken:

During the current year, the software issues were resolved and with our assistance the proper close out procedures were performed at the end of the fiscal year.

2006-3 - Financial Reporting to Management and the Board of Directors

Finding:

Due to the numerous findings reported in the prior year it was noted that management and the Board of Directors are not receiving a complete set of accurate and timely monthly financial statements. These financial statements should at a minimum include a complete balance sheet, income statement, and statement of cash flows. Also, a statement of budget to actual comparisons should be presented.

During the current year, we were informed by management that the Board did not receive accurate and timely monthly financial information at every Board meeting during the year.

Recommendation:

It is imperative that all recommendations cited in our report be implemented so that as an end result accurate, timely financial statements can be generated and presented to management and the Board of Directors. This information can then be used to effectively monitor the financial condition of the System and effectively monitor actual amounts compared to budgeted amounts.

2006-4 - Bank Reconciliations

Finding:

In the prior year, it was noted that for all of the cash accounts, complete bank reconciliations were not prepared. This was also noted in prior years. The various cash accounts were again being reconciled only to the bank statement balance each month and not to the general ledger balance. At our request and with our guidance these accounts were reconciled to the various general ledger cash balances. During the reconciliation process numerous adjustments to the general ledger were identified including several months of passenger fares from the RTA buses recorded twice in the amount of \$62,120. Also, double billings made incorrectly and subsequently received and recorded in the cash account would have been timely identified. In addition, the System was notified in May 2007 by their bank of bank errors of approximately \$37,000 that had been made in February and March 2006 and was due back to the bank. All of these errors would have been discovered if correct bank reconciliations had been prepared in a timely manner.

Recommendation:

Monthly preparation of bank reconciliations in a timely manner and review thereof by the CFO play a crucial role in ensuring the accuracy of the monthly financial statements and detection of unauthorized transactions. All cash accounts should be reconciled not only to the bank balance but also to the general ledger balances. It is imperative that these reconciliations and corresponding review thereof, be done on a timely basis at the end of each month. This review should focus on any unusual or stale items. Any such items should be investigated and fully resolved.

Corrective Action Taken:

In the current year, it was noted that bank reconciliations were prepared and reviewed monthly on a timely basis and previously identified errors were corrected.

2006-5 - Lack of Written Accounting Procedures

Finding:

We noted that there is a lack of written accounting policies and procedures documenting the various cycles comprising the System's accounting/finance function. Written policies and procedures are essential to a strong internal control system and accounting department. They are especially critical when employee turnover is experienced.

During the current year, we were informed that this process has begun, but has not been finalized as of the date of our report.

Recommendation:

We recommended and continue to recommend the System finalize the task of evaluating the various accounting cycles and developing written policies and procedures for each key cycle identified.

2006-6 - Federal Grant Overpayments

Finding:

The results of our single audit procedures revealed questioned costs of \$453,580 for the year ended December 31, 2006. This amount along with estimated accrued interest payable in the amount of \$10,861 has been recorded as a liability in these financial statements as a Due to the FTA. An additional estimated accrued interest payable has been recorded as of December 31, 2007 in the amount of \$38,317 in relation to the 2006 questioned cost. This amount includes duplicate reimbursement requests, inappropriate amounts requested for expired CMAQ routes, and questioned salary expense. See Findings 2006-13 and 2006-14 for further details. Once again, the duplicate requests and receipts were not identified since there were no reconciliation procedures performed in this area. Also, a schedule was not maintained for each of the CMAQ routes indicating expiration dates.

Recommendation:

It is imperative that all FTA reimbursement requests and receipts be reconciled in a timely manner to avoid these problems. Also, these amounts should be reconciled to the FTA's TEAM reporting system. Finally, a schedule of all CMAQ routes along with their inception and expiration dates should be

maintained and monitored for any upcoming expiration dates.

Corrective Action Taken:

In the current year, we were informed that an agreement was reached with FTA. As of the date of our report, the System is working with the FTA to establish the repayment terms, and no repayments have been made.

2006-7 - Compensated Absences

Finding:

There were various deficiencies and inaccuracies noted by us during the December 31, 2005 and 2006 audits.

We noted that there were various deficiencies and inaccuracies regarding accrued compensated absences related to the following items:

- For all four employees selected for testing, the time taken per the payroll leave records did not agree to the time taken per the accrued leave schedule. For such a small sample size the number of discrepancies noted was considered excessive.
- Two employees had negative accrued sick leave balances and thirteen employees had negative accrued vacation balances.

Recommendation:

Although the effects of these inaccuracies appeared to be immaterial to the financial statements, we recommended a monthly review of all accrued leave time be performed by department supervision; as well as the implementation of a policy that strictly prohibits advances of any kind regarding sick or vacation time. We also recommended a more stringent effort be made to ensure that actual time used per the payroll records reconciles to the time used per the accrued leave schedule.

Additional Finding:

During the current year, for the employees selected for testing, no deficiencies or inaccuracies were noted during our procedures. However, several employees had negative sick and vacation leave balances.

2006-8 - Inventory

Finding:

During our prior year audit it was noted that an adjustment of \$148,594 was necessary to adjust the diesel fuel inventory general ledger account to the actual physical count at December 31, 2006. It appears this account was not being reconciled or adjusted during the year.

Recommendation:

All inventory accounts should be closely monitored and analytically reviewed on a periodic basis. All accounts should be adjusted to actual as part of the normal monthly closeout process. If such procedures had been performed, it would have been evident that the diesel fuel inventory amount per the general ledger was not accurate.

Corrective Action Taken:

In the current year, the client monitored and reviewed all inventory accounts during the year. The inventory accounts only required one adjustment of approximately \$34,000 at year end to adjust the general ledger balance to the actual physical count.

2006-9 - Accounts Payable

Finding:

During our prior year audit, it was noted that the accounts payable subsidiary ledger could not be reconciled to the general ledger balance at December 31, 2006. The general ledger balance was approximately \$18,000 less than the subsidiary ledger. Also, \$251,380 of payables recorded at December 31, 2005 were still recorded on the general ledger at December 31, 2006 since they had not been properly reversed during the year. In addition, approximately \$258,000 of additional accounts payable were recorded for items that should have also been recorded as an accounts payable at December 31, 2006. All necessary adjustments were made to correct these amounts at December 31, 2006.

Recommendation:

The accounting department should reconcile the accounts payable subsidiary ledger to the general ledger at the end of each month as part of the normal month end close process. Any differences should be immediately reconciled. Also, all reversing adjustments should be recorded timely. Management should also review the accounts payable subsidiary ledger for accurately including a proper cut off of accounts payable at the end of each month. This step is critical especially at year end.

Corrective Action Taken:

During the current year, it was noted that the accounts payable subsidiary ledger was reconciled to the general ledger at December 31, 2007.

2006-10 - Various Employee Withholding Accounts

Finding:

It was noted in our prior year audit that various employee withholding accounts including employee union dues, health insurance deduction withholdings, uniform withholdings, credit union withholdings, etc., were not being reconciled timely. As a result, several misposting/errors were identified when a reconciliation was attempted for the audit. As of the date of our prior year report, these various accounts were still not reconciled and therefore no adjustments were made to the financial statements. These outages were considered not material to the financial statements.

Recommendation:

We recommended all of these payroll withholding related accounts be reconciled at least monthly with any mispostings or other errors being corrected in a timely manner. Management should continue in their efforts to complete these reconciliations and bring them up to date.

Corrective Action Taken:

During the current year, these various payroll withholding related accounts had been reconciled at December 31, 2007.

2006-11 - Federal Grant Receivable

Finding:

It was noted that various planning expenses were submitted to FTA for reimbursement for the months of May 2006 - November 2006. These amounts were being requested under an incorrect grant number. As a result FTA did not pay these amounts to the System. These amounts totaled \$61,612 and appeared to be still due to the System at December 31, 2006, and have been recorded as an accounts receivable in these financial statements.

In the current year, the System received \$7,818 of the above mentioned receivable and reversed the remaining \$53,794 in error. The appropriate journal entries have been proposed at December 31, 2007 to correct the accounts receivable balance. The System failed to request reimbursement under the correct grant during the current year; therefore, the remaining funds in the amount of \$53,794 were not received.

Recommendation:

Management failed to realize that these requested expenses had not been received by the System since there was a lack of reconciliation procedures in place whereby all requested funds are reconciled to the actual cash receipts and the financial information reported in the FTA's TEAM reporting System. Management is in the process of re-requesting these funds under different grant numbers and expects reimbursement to be received. We recommended and continue to recommend formal reconciliation procedures should be implemented to reconcile all cash receipts to reimbursement requests and the TEAM reporting system.

2006-12 - Lack of Pledged Collateral

Finding:

As indicated in Note 2 to the December 31, 2006 financial statements, the System failed to maintain adequate FDIC insurance or obtain a sufficient amount of pledged collateral for their cash and cash equivalents. At December 31, 2006, the System was underinsured by \$494,019. This finding relates to one of the System's custodial banks failing to pledge adequate securities on the deposits. This bank indicated that they were not requested by the System's management to have the securities pledged.

In the current year, it was noted that the System did require their bank to pledge collateral for their cash and cash equivalent bid at December 31, 2007 but was uninsured by \$9,324.

Recommendation:

We recommended and continue to recommend the System more closely monitor the pledged collateral on all deposits and make sure the System's fiscal agents have pledged adequate collateral to insure all deposits.

2005 - 1 Bank Reconciliations -

Finding

In 2005, we noted that the general operating account had not been reconciled for the entire year. When a reconciliation was prepared for the general operating account there was an unreconciled difference of approximately \$23,000 as of December 31, 2005. The various other cash accounts were being reconciled but only to the bank balance each month and not to the general ledger balances. At our request, these other accounts were adequately reconciled for us by accounting personnel to the general ledger balances at December 31, 2005. There were additional findings in the cash area in 2006.

Recommendation

Monthly preparation of bank reconciliations in a timely manner and review thereof by the CFO play a crucial role in ensuring the accuracy of the monthly financial statements and detection of unauthorized transactions. All cash accounts should be reconciled not only to the bank balance but also to the general ledger balances. It is imperative that these reconciliations and corresponding review thereof, be done on a timely basis at the end of each month. This review should focus on any unusual or stale items. Any such items should be investigated and fully resolved.

Corrective Action Taken

In the current year, it was noted that bank reconciliations were prepared timely on a monthly basis.

2005-3 - Accounts Receivable -

Finding

At December 31, 2005, it was noted that the accounts receivable subsidiary ledger for customers was not being reconciled on a monthly basis. This account was out of balance by approximately \$13,700. Management did research the outage at our request and was able to identify the majority of the difference. The largest item was an \$8,840 accounts receivable from Baton Rouge Community College that had been recorded in March 2005 but not properly reversed when the payment was received. All necessary adjustments were made to correct these differences.

In the prior year at December 31, 2006, we noted that the accounts receivable subsidiary ledger for customers was out of balance with the general ledger balance by \$2,975.

Recommendation

We recommended the accounts receivable subsidiary ledger be reconciled on a monthly basis. This reconciliation should be reviewed for accuracy with any differences or unusual items being investigated timely.

Corrective Action Taken

During the current year, it was noted that the accounts receivable subsidiary ledger had been reconciled to the general ledger.

(2) Findings and Questioned Costs Relating to Federal Awards:

2006-13

Compliance Area: Reimbursement Request and Reconciliation Procedures

		Estimated Accrued <u>Questioned Costs</u>	<u>Interest Payable</u>
Grant Year and No.:	2003 Formula Grant/LA-90-X250-00	\$ 261,588	\$ 29,773
	2005 Formula Grant/LA-90-X281-00	\$ 16,927	\$ 1,975

Total Questioned Cost: \$286,617 for 2006 and additional accrued interest payable of \$23,646 for 2007.

Criteria:

Reimbursement requests should be supported by adequate documentation with receipts being properly reconciled to reimbursement request.

Condition:

After the original reimbursement requests were filed within the FTA for the months of May and November 2006, it was noted by the person filing these requests that certain clerical errors had been made. In an attempt to correct the clerical errors, the reimbursement requests were resubmitted again. The FTA funded both the original and amended requests. Therefore, the System was reimbursed twice for the same expenses. The May overpayment was \$188,936 and the November overpayment was \$89,580. The System failed to identify these amounts as duplicate reimbursements. These overpayments were identified as a result of our audit procedures.

Effect:

The System received duplicate reimbursements in the amount of \$278,516 and failed to realize these errors due to lack of reconciliation procedures.

Recommendation:

We recommend more care be exercised when preparing these reimbursement requests. Also, reconciliation procedures should be implemented immediately so that all requests are matched to the actual receipts received in a timely manner. These procedures would eliminate any discrepancies in a timely manner. Also the FTA should be contacted immediately to discuss repayment options.

Corrective Action Taken:

In the current year, we were informed that an agreement was reached with the FTA. As of the date of

our report, the System is working with the FTA to establish the repayment terms, and no repayments have been made.

2006-14

Compliance Area: Expired CMAQ Routes

	<u>Questioned Costs</u>	<u>Estimated Accrued Interest Payable</u>
Grant Year and No.: 2003 Formula Grant/LA-90-X250-00	\$ 161,859	\$ 15,160

Total Questioned Cost: \$163,528 for 2006 and additional accrued interest payable of \$13,491 for 2007.

Criteria:

CMAQ routes are only eligible for funding by the FTA for three year periods from their inception dates.

Condition:

The System requested and received inappropriate amounts from the FTA for three CMAQ routes that expired in the 4th Quarter of 2006, since expiration dates were not being monitored. These over reimbursements were in the amount of \$161,859. In addition, we were informed that the System continued to request and received reimbursement for these expired routes in 2007. See finding 2007-4 for further details.

Effect:

As noted above, the System was over reimbursed \$161,859 in 2006 for those expired routes.

Recommendation:

We recommend a schedule of all CMAQ routes be maintained indicating their inception dates and expiration dates. These schedules should be monitored for upcoming expiration dates. This information should be communicated to the accounting department so no additional funds are requested upon expiration of the route. Also the FTA should be contacted immediately to discuss repayment options.

Corrective Action Taken:

In the current year, we were informed that an agreement was reached with the FTA. As of the date of our report, the System is working with the FTA to establish the repayment terms, and no repayments have been made. In addition, at December 31, 2007 all routes had expired and the System is no longer billing for these CMAQ routes.

2006-15

Compliance Area: Passenger Counts

Grant Year and No.: N/A

Questioned Cost: N/A

Criteria:

FTA Formula Grants are based partly upon passenger counts.

Condition:

Based on our discussion with management, it was noted that bus drivers were not keeping accurate records of passenger counts for the University bus routes. Based on management's investigation into this matter it appears passenger counts for those routes were greatly understated.

Effect:

Management expects this under reporting of passengers to affect the amounts of funds made available to the System for the FTA Formula Grant since it is partly based upon passenger counts. Management anticipates the 2007 Formula Grant may be reduced by up to \$300,000 due to this under reporting of passenger counts.

Recommendation:

We recommended management have training sessions with the bus drivers to emphasize how critically important it is to maintain accurate passenger counts and to put in place a monitoring system.

Corrective Action Taken:

In the current year, we were informed that a training program was developed to include training for drivers, mechanics, and accounting and administrative personnel.

Additional Recommendation:

We recommend the System implement a procedure to document attendance of employees who attend the various trainings offered.

2006-16

Compliance Area: Quarterly Reporting and Reconciliation of Reports

Grant Year and No.: All projects reported under Schedule of Federal Awards

Questioned Cost: N/A

Criteria:

Quarterly Financial Status Reports (FSRs) and Quarterly Narrative Reports (QNRs) are required to be filed with the FTA within 30 days after the end of each quarter. These reports are based on information obtained from the monthly ECHO reports and are required to be transmitted electronically through the FTA's TEAM reporting system.

Condition:

The System did not maintain a hard copy of these quarterly reports for the last three quarters of 2006. We requested that the TEAM's reporting system send duplicates of these reports. We could not determine if the reports were filed timely. We also attempted to reconcile these reports to the monthly ECHO reports but were unable to do so.

Effect:

The System did not comply with FTA quarterly reporting requirements as the amounts reported did not reconcile to the monthly ECHO information.

Recommendation:

We recommended management amend all incorrectly submitted quarterly reports with the FTA and implement new procedures to ensure that all information per the quarterly reports are reconciled to the monthly reports prior to submission to the FTA. Also, a file should be maintained that contains a hard copy of the quarterly forms along with all supporting documentation. It is imperative that these quarterly reports be amended immediately. These reports serve as the primary tracking system of federal grant expenses and drawdowns.

Corrective Action Taken/Additional Finding:

In the current year, the System maintained hard copies of the Quarterly Financial Status Reports (FSRs) and Quarterly Narrative Report (QNRs). However, other inaccuracies were noted in the current year in relation to these reports. See Findings 2007-5 and 2007-6 for further details.

2005-4

Compliance Area: Allowable Cost
2005 Formula Grant/LA-90-X281-00
Grant Year and No: 2004 Formula Grant/LA-90-X268-00
Questioned Cost: \$2,583

Criteria

Cost allocated to grant activities must be allocated fairly to all program/activities of the grantee.

Condition

The system recorded several accounts payable items twice in error as discussed in Finding 2005-2. Of these amounts, \$2,583 was improperly charged to preventive maintenance expense.

Effect

As the system draws down federal funding based on the total expenses charged to the maintenance department, the system requested more money than should have been allowed in the amount of \$2,583.

Recommendation

The accounts payable subsidiary listing should be reconciled on a monthly basis. The System should review the accounts payable listing for accuracy before preparing the Echo request each month.

Corrective Action Taken

In the current year, the accounts payable subsidiary listing was reconciled to the general ledger.

2005-5

Compliance Area: Allowable Cost

	<u>Questioned Costs</u>	<u>Estimated Accrued Interest Payable</u>	
Grant Year and No:	2005 Formula Grant/LA-90-X281-00	\$ 40,014	\$ 9,073
Total Questioned Cost:	\$31,052 for 2005 and \$14,294 for 2006, and \$3,741 in additional accrued interest payable for 2007.		

Criteria

According to OMB Circular A-87's general criteria, costs charged to grant programs must be allocable to the programs/activities funded by the grant, and all programs/activities of the grantee must bear their fair share of all costs. Allowable activities include vehicle maintenance, expanded route services, vehicle purchases, ADA services, planning, and administrative costs attributable to the grant activities. Grant funds are not to be used for operations.

Condition

The following position's compensation costs was charged in full (100%) to the federal grant for the 2005 year and until this employee resigned in May 2006.

- Procurement Administrator

The position listed above appears to be partially general operational activities or administrative in nature. The compensation costs associated with this position does not appear to benefit the grant activities 100%.

Effect

The System may have charged unallowable costs for the portion of this employee's salary not considered to benefit the grant activities for the 2005 year and up until the employee resigned in May 2006.

Recommendation

We recommended the System discuss this matter with the FTA and implement the recommendations of the FTA and develop an allocation plan for this position if deemed necessary. In a letter from the FTA received by the System in April 2007, the FTA requested a formal response to this finding from the

System.

Corrective Action Taken:

In the current year, we were informed that an agreement was reached with FTA. As of the date of our report, the System is working with the FTA to establish the repayment terms, and no repayments have been made.

2004-1

Compliance Area: Allowable Costs

		<u>Questioned Costs</u>	<u>Estimated Accrued Interest Payable</u>
Grant year and No.:	2003 Formula Grant/LA-90-X250-00	\$ 110,600	\$ 35,007
	2004 Formula Grant/LA-90-X268-02	\$ 78,303	\$ 19,875
Total Questioned Costs:	\$134,510 for 2004 and additional questioned costs of \$90,696 for 2005, and additional accrued interest payable of \$18,579 for 2007.		

Criteria

According to OMB Circular A-87's general criteria, costs charged to grant programs must be allocable to the programs/activities funded by the grant, and all programs/activities of the grantee must bear their fair share of all costs. Allowable activities include vehicle maintenance, expanded route services, vehicle purchases, ADA services, planning, and administrative costs attributable to the grant activities. Grant funds are not to be used for operations.

Condition

The following positions' compensation costs were charged in full (100%) to the federal grant and are questioned as allowable:

- Operations Statistician
- Operations Supervisor - ADA
- Marketing Director
- Operations Dispatcher - CMAQ
- Operations Supervisor - CMAQ

The positions listed above appear to be general operational activities or administrative in nature. The compensation costs associated with these positions does not appear to benefit the grant activities 100%. Furthermore, the System's process for ensuring that only allowable compensation costs are charged to the grant did not detect these unallowable costs.

Effect

The System charged unallowable costs of \$110,600 for 2004 and additional unallowable costs of \$78,303 for 2005.

Recommendation

The prior CPA recommended, the System cease charging the compensation costs of the above positions to the grant and should contact the FTA regarding the current year's questioned costs.

Corrective Action

As reported in the prior CPA report, upon receiving notice of this finding in 2005, Management spoke with the FTA regarding this matter who concurred with the finding. Upon receiving FTA concurrence management complied with the recommendation cited above. However, the System did not receive the FTA concurrence until June 2005. Therefore, the questioned allocations occurred for the first six months of 2005, resulting in \$78,303 of additional questioned cost for 2005. In a letter from the FTA received by the System in April 2007, the FTA requested a formal response to this finding from the System.

In the current year, we were informed that an agreement was reached with FTA. As of the date of our report, the System is working with the FTA to establish the repayment terms, and no repayments have been made.

2004-2

Compliance Area: Reporting
Grant year and No: All projects reported under Schedule of Federal Awards
Questioned Costs: None

Criteria

Reports of Disadvantaged Business Enterprises Awards or Commitments and Payments (DBE reports) must be filed.

Condition

During the 2004 and 2005 audit, the DBE reports were filed, however they were not filed timely. During 2005, the system filed one DBE report in April relating to the 2004 fiscal year. A report for the fiscal year 2005 was filed in January 2006. In addition during the current year audit, it was noted there were no DBE reports filed other than the one filed in January 2006 that related to 2005. The system was not in compliance during 2004, 2005, or 2006 with this reporting requirement.

Effect

The System is non-compliant with the regulations for reporting.

Recommendation

The reports should be filed within the time frames stated in the regulations. This was also the recommendation of the prior CPA as well.

Corrective Action Taken:

In the current year, the System timely filed the required DBE reports for 2007.

2004-4

Compliance Area: Allowable Costs

		<u>Questioned Costs</u>	<u>Estimated Accrued Interest Payable</u>
Grant year and No:	CMAQ Expansion/LA-90X208-00	\$ 62,000	\$ 19,628
Total Questioned Costs:	\$75,407 for 2006 and additional accrued interest payable of \$6,221 for 2007.		

Criteria

Per FTA grant regulations, reimbursements made for expanded service route expenses were calculated based on the actual operating expenses incurred less revenues generated from those routes.

Condition

The system did not reduce its reimbursement requests by the amount of revenues generated from the expanded service routes.

Effect

The System charged unallowable costs to the grant of approximately \$62,000.

Recommendation

The prior CPA recommended the System should reduce its operating costs for expanded service routes by the revenues generated from those routes to determine the amount of federal funds for reimbursement.

Corrective Action

Management researched the calculation requirements for expanded services route expense finding no requirement that the calculation should be based on actual expenses less revenues generated. However, management indicated in the prior CPA 2004 report that they complied with the recommendation listed above.

In a letter from the FTA received by the System in April 2007, the FTA has requested a formal response to this finding from the System.

In the current year, we were informed that an agreement was reached with FTA. As of the date of our report, the System is working with the FTA to establish the repayment terms, and no repayments have been made.

MANAGEMENT'S RESPONSE



June 26, 2008

Hannis T. Bourgeois, LLP
Certified Public Accountants
2322 Tremont Drive
Baton Rouge, LA 70809

RE: Responses to the Single Audit Findings from year end December 31, 2007

The Capital Area Transit System (CATS) has completed the task of addressing all findings itemized in your Single Audit Report for the year ending December 31, 2007. The corrective action plan proposed by CATS Management will resolve and comply with the Auditor's recommendations. CATS Management has responded to the schedule of findings and questioned costs in the same order of the document.

2007-1 – Bus and Workers Compensation Liability

CATS has contacted both Lindsay, Abadie & Wehbe and Baton Rouge Brown Claims to initiate a meeting to better understand how both entities record the liabilities. Baton Rouge Brown Claims has agreed to submit the loss runs for both Workers Compensation and Bus Liability monthly so that an adjusting entry may be made to accurately record outstanding liabilities.

2007-2 – Accrued Salaries

Payroll is accrued monthly. There was an unfortunate mistake made in the accrual for salaries at December 31, 2007. CATS will take extra precaution when reviewing the payroll period for which salary is being accrued to ensure the number of days included in the calculation is correct.

2007-3 – Fixed Assets

CATS will continue to perform an annual physical inventory of fixed assets to ensure the fixed asset listing is complete. CATS policy will be updated to include reconciliation procedures that require more frequent reconciliations of the fixed assets listing to the general ledger throughout the year as well as at year end. Property tags are being placed on items for easier tracking. There will be a review of federal guidelines for acquisition and disposition of items to determine if our policy and procedures are compliant. CATS will research and purchase a fixed asset module for better tracking.



2250 Florida Boulevard • Baton Rouge, LA 70802-3125 • PH: (225) 389-8920 • FAX: (225) 389-8919

2007-4 – Expired CMAQ Routes

Upon receipt of CMAQ monies, a schedule will be maintained that will indicate the inception and expiration dates for the project(s). The schedule will be properly monitored on a monthly basis.

2007-5 – Quarterly Reporting and Reconciliation of Reports

CATS agrees that it appears the reports were not made. CATS feels that the reports were made but admits there were some problems with FTA Team software. CATS will review and amend, if the FTA TEAM software will permit amendments, any incorrectly submitted quarterly reports with FTA and implement new procedures to ensure that all information is reconciled to the monthly reports prior to submission to the FTA. CATS does maintain files that have hard copies of the reports.

2007-6 – Quarterly Reporting and Reconciliation of Reports

A misunderstanding in personnel may have been the reason the ECHO request for May was not done in a timely manner. CATS will follow the accrual method of accounting and make the appropriate ECHO draws in the appropriate months.

2007-7 Earmarking

CATS has contacted FTA for a ruling on the 1% enhancements to determine if written permission was given by FTA to waive the 1% because the combination of past grants exceeds 1% per year. FTA did not concur; therefore, CATS is now in the process of amending the 2007 Formula Grant to add the 1% for enhancements.

2006-3 – Financial Reporting to Management and the Board of Commissioners

CATS agrees that accurate, timely financial statements are necessary in order for our Board and management to effectively monitor the financial condition of CATS every month and compare reports to budgeted amounts. CATS has lost two CFOs and one contracted CFO in less than nine months; however, CATS has hired a Controller who plans to start work on July 14. In the interim, CATS Accounting Supervisor is acting as Controller.

2006-5 – Lack of Written Accounting Procedures

Written policies and procedures for the Accounting Department exist but they are not bound nor are they kept in one place. CATS Management Team has been gathering all policies and procedures from all Departments and has been consulting with various personnel in these Departments to tweak these processes and procedures, if needed. The Accounting Procedures will be part of an overall CATS Policy and Procedure Manual that will be in hard copy form as well as electronically.

2006-7 – Compensated Absences

CATS HR Director met with the Operations Dispatcher to determine why the negative balances existed and have reconciled the records. CATS does not allow the granting of leave if the employee does not have positive leave balances. The reason the negative balances occurred was in the initial recording of sick and vacation leave several years prior. This problem has been resolved.

2006-11 – Federal Grant Receivable

CATS plans to use the \$53,794 receivable as partial payback of FTA funds erroneously drawn in 2006. CATS is in the process of paying back other funds but is having problems with the ECHO procedures. FTA has been consulted regarding this problem and it is still under investigation. CATS will continue to perform a reconciliation of all cash received from FTA with the TEAM reporting system to ensure that all monies are accounted for and all reports affected will be correct.

2006-12 – Lack of Pledged Collateral

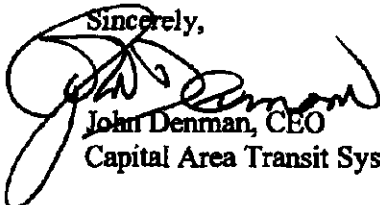
Hannis T. Bourgeois will supply CATS with the name of the institution that failed to pledge adequate securities on the deposits. Upon receipt, CATS will contact the institution to ensure all securities are covered. CATS will more closely monitor the pledged collateral on all deposits to ensure adequate collateral is pledged. This procedure will be included in CATS Policy and Procedure Manual under the Account Department.

2006-15 – Passenger Counts

Training for the driver's on how to operate the electronic validating fare box is included in all new drivers training and the employee does sign a paper saying he/she has received training on the fare box. These records are generally kept in operation. Periodically the training supervisors will offer a refresher session on the fare box but no documentation is kept. CATS will document training on the fare box and refreshment training on the fare box for passenger counts and file the paperwork in the employee personnel file and in the training records.

If you have any questions or comments, please contact Carol Cranshaw, CATS General Manager, at (225) 389-7705 or myself at (225) 389-8927.

Sincerely,



John Denman, CEO
Capital Area Transit System

cc: Honorable Mayor-President Melvin "Kip" Holden
Mr. Charles Kelly, CATS Board President
CATS Audit Committee
Mr. R. J. Goebel, CRPC/MPO Director of Planning

CAPITAL AREA TRANSIT SYSTEM

MANAGEMENT LETTER

DECEMBER 31, 2007



Hannis T. Bourgeois, LLP

Certified Public Accountants

Randy J. Bonnacaze, CPA*
Joseph D. Richard, Jr., CPA*
Ronnie E. Stamper, CPA*
Fernand P. Genre, CPA*
Stephen M. Huggins, CPA*
Monica L. Zumo, CPA*
Ronald L. Gagnet, CPA*
Douglas J. Nelson, CPA*
Celeste D. Viator, CPA*
Laura E. Monroe, CPA*
R. David Wascom, CPA*

2322 Tremont Drive
Baton Rouge, LA 70809
Phone: (225) 928-4770
Fax: (225) 926-0945

*Members American Institute of
Certified Public Accountants*

1175 Del Este Avenue, Suite B
Denham Springs, LA 70726

www.htbcpa.com

*A Professional Accounting Corporation

June 18, 2008

To the Board of Directors
Capital Area Transit System
Baton Rouge, Louisiana

In planning and performing our audit of the financial statements of the Capital Area Transit System (the System) for the year ended December 31, 2007, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 18, 2008, on the basic financial statements of the Capital Area Transit System.

Current Year Findings:

Accounts Receivable

Finding:

In the current year, several accounts with over 90 day past due balances of approximately \$10,000 were noted on the accounts receivable aging report at December 31, 2007. There had been no recent activity on these balances. There has been no review of these over 90 day balances from the aging report performed by the accounting manager.

Recommendation:

We recommend that accounting manager review the aging report on a monthly basis and follow up on any balances that have not been collected. Any balances that are deemed uncollectible should be written off only after all collection efforts have been exhausted. The approval to write off bad debts should be approved by the Board of Directors and documented in the Board minutes.

Compensated Absences

Finding:

During the current year, it was noted that the accumulated vacation hours for some union employees were included in the vacation accrual calculation as of December 31, 2007. The union employees are not allowed to carryover any unused time to the next year. The time is forfeited if not used; therefore, these hours should not be included in the calculation.

Recommendation:

We recommend management review this calculation in the future to ensure the accumulated hours for all union employees is excluded from the calculation.

Payroll

Finding:

In the current year, for three of the employees selected for testing out of a sample size of 40, it was noted that their personnel file did not include all of the necessary information relevant to employment.

Recommendation:

We recommend that the System review all personnel files to ensure the appropriate documentation is included.

Finding:

During the current year, for three of the employees selected for testing out of a sample size of 40, it was noted that the employees are salaried. However, they still received holiday and overtime pay in addition to their salary. We were informed that the System is currently reviewing their policy regarding this issue as all salaried employees are being compensated in this manner.

Recommendation:

We recommend the System continue to review this issue and implement a policy regarding the benefits received by salaried employees.

Prior Year Findings:

Inventory

Finding:

In the prior year, we noted that the beginning on-hand inventory balances on the monthly fuel and oil inventory reconciliations were not being agreed to the prior month's ending on-hand inventory as per the previous month's reconciliation.

Recommendation:

We recommended the Accounting Manager agree such amounts each month to ensure the correctness of reconciliation detail. Any differences should be investigated and reconciled in a timely manner.

Corrective Action Taken:

In the current year, we were informed that the maintenance department and finance department meet each month to compare the reconciliations. Any inconsistencies are resolved and the inventory is reconciled.

Fixed Assets

Finding:

In the prior year, we noted the following deficiencies and inaccuracies regarding fixed assets:

1. Certain items to be capitalized were incorrectly expensed during the year.
2. A formal capitalization policy has not been adopted and approved by the Board.
3. A vendor designed fixed asset software program is not being used. Currently, all fixed asset schedules are being maintained in excel which results in a cumbersome method of calculating and recording fixed asset additions, disposals and depreciation expense.

In the current year, there were no fixed asset additions noted. However, it was noted that the accounting department had not been reviewing the repairs and maintenance accounts to determine if any reclassifications were necessary. Also in the current year, we did note additional problems with fixed assets. This finding is reported as a material weakness for the year ended December 31, 2007 in a separate letter dated June 18, 2008.

Recommendation:

We again recommend a monthly review of all repairs and maintenance expense accounts be performed and documented to determine that all items are being properly capitalized with any necessary reclassification entries made at that time. In addition we again recommend the board should adopt a

formal capitalization policy consistent with FTA and City-Parish guidelines. Lastly, based on the large dollar amount of fixed assets maintained by the System; we again recommend the client should purchase fixed asset software rather than using the current excel spreadsheet method.

While the accounting software utilized by the System has a fixed asset module, it has been noted by management that the software does not work properly.

Payroll

Finding:

In the prior years and again in the current year, we noted that IRS Schedule 941's (Employer's Quarterly Federal Tax Return) are not regularly being reconciled to the general ledger balances. In the current year, it was noted that the 941's were filled out incorrectly by the System's third party payroll agency. This could have been prevented if the 941's were reviewed by the accounting department on a quarterly basis.

Recommendation:

We again recommend the Accounting Manager perform a quarterly reconciliation of all quarterly 941's to general ledger payroll account balances. This reconciliation should be reviewed and approved by the CFO. Amended 941's should be filed as necessary for any incorrect payroll tax reports.

Finding:

During the year ended December 31, 2005, for one of the employees selected for testing, it was noted the incorrect pay rate was being used. The employee was being paid \$13.74 per hour when the correct rate was \$13.36 per hour resulting in an over payment of wages for the 2005 year of approximately \$430.

In 2006, for two employees selected for testing, it was noted that incorrect pay rates were being used. These employees were both paid \$9.67 per hour when the correct rate was \$9.39 per hour.

In the current year, for one employee selected for testing, it was noted that the incorrect pay rate was being used. The employee was paid \$14.35 per hour when the correct rate was \$14.78 per hour.

Recommendation:

Although estimated amounts of overpayments are not material to the financial statements, we again recommend a more stringent review of payments to employees be performed to ensure correct pay rates are being used.

Information Systems Security

Finding:

It was noted in prior years that certain computerized security controls of the accounting systems are not functioning to their maximum capacities, leaving CATS vulnerable to unauthorized use or access to critical financial data. The areas for security enhancement include:

1. Passwords for networks should conform to ISC Standards.
2. Group policy should enforce timeouts after periods of inactivity.
3. Maintenance and review of file access logs.
4. Nightly backup tapes.
5. Disaster recovery plan.

Corrective Action Taken:

In the current year, an IT specialist was hired to address these issues. Management of the System has indicated they are in the process of implementing various policies and procedures to strengthen computerized security controls.

Recommendation

We recommended in the prior year and continue to recommend that CATS have a follow up IS audit to address the areas of concern listed in the previous report. Also, management should continue the process of implementing all recommendations of the IT specialist.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management and staff, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended for the use of management and the office of the Legislative Auditor, State of Louisiana, and should not be used for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannis T. Bourgeois, LLP



June 26, 2008

Hannis T. Bourgeois, LLP
Certified Public Accountants
2322 Tremont Drive
Baton Rouge, LA 70809

RE: Responses to the Current Year Findings in the Management Letter June 18, 2008

The Capital Area Transit System (CATS) has completed the task of addressing all findings itemized in your Management Letter for the year ending December 31, 2007. The corrective action plan proposed by CATS Management will resolve and comply with the Auditor's recommendations. CATS Management has responded to the schedule of findings and questioned costs in the same order of the document.

Capital Area Transit System, (CATS) would like to make a statement before responding to the audit findings for 2007.

In a good faith effort to reconcile prior year findings and develop proper written processes and procedures, CATS contracted with a private company to act as CATS CFO. It was with the understanding that the contracted CFO would review current processes and recommend any changes, implement new policies when approved, record the processes and procedures to follow, and train Accounting staff, in order to comply with prior audit findings. It was also the responsibility of the contracted CFO to provide monthly financial statements to the Board of Commissioners. After several months, it was evident that the contractor could not comply with the terms of the contract and the contractual relationship was severed.

CATS has recently hired a Controller, who starts work on July 14. However, CATS does understand that the responsibility for the audit findings relies ultimately on CATS itself.

Accounts Receivable

CATS has reviewed the Accounts Receivable account and has made several attempts to collect on past due balances. CATS will attempt to collect the balances one more time. If the debt is still not paid, CATS will write off the debt as a bad debt, after the Board approves the action.

Compensated Absences

CATS did zero out the accumulated vacation hours on January 3, 2008 but the action should have been performed on December 31, 2007. CATS will review the vacation accrual on a quarterly basis to ensure that no vacation hours for union employees will be carried over to the following year and will ensure that accumulated vacation hours will be removed on December 31 of each year. This procedure will be documented in CATS Policy and Procedure Manual.



Payroll

All necessary information relevant to employment has been kept in the various Departments' files. The new HR Director was recently tasked with keeping all relevant information in HR's files.

CATS will review the laws concerning overtime and salaried personnel and how they may pertain to all salaried personnel at CATS. CATS will develop and implement a company policy, which will be included in CATS Policy and Procedure Manual.

Fixed Assets

CATS will review all maintenance and expense accounts monthly to ensure that all items to be capitalized is recorded properly. CATS will develop a capitalization policy consistent with the City-Parish and FTA guidelines and request that the Board adopt a formal capitalization policy. CATS will review the information on how to dispose of federally subsidized items supplied by Hannis T. Bourgeois. CATS will actively pursue the purchase of a fixed asset module.

Payroll

CATS will reconcile the 941's to the general ledger payroll accounts on a quarterly basis. An amended 941 will be prepared, if necessary. These procedures will be documented in CATS Policy and Procedure Manual.

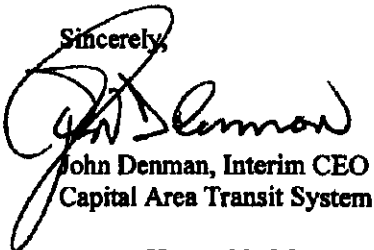
CATS has notified all departments that changes in position and/or salary must be submitted on a "Change in Classification" form, approved by the Department Head, approved by the CEO and/or General Manager and sent to Human Resources to be filed in the employees personnel file. Each department may keep a copy at their own discretion. Additionally, if an employee is out of work during the time of an across the board raise, the individual department heads need to report the missing personnel to Human Resources to ensure proper recording of the rate. These procedures will be documented in CATS Policy and Procedure Manual.

Information Systems Security

CATS recognizes the importance of information systems security and has hired an IT Manager on staff. CATS has also been working closely with the City's IT Department and has implemented safeguards to keep our system secure. CATS management has reviewed and accepted the IT Plan, which includes short-term as well as long-term projects. CATS will explore options regarding an IS audit, which may be eligible under the City's review.

If you have any questions or comments, please contact Carol Cranshaw, CATS General Manager, at (225) 389-7705 or myself at (225) 389-8927.

Sincerely,



John Denman, Interim CEO
Capital Area Transit System

cc: Honorable Mayor-President Melvin "Kip" Holden
Mr. Charles Kelly, CATS Board President
CATS Audit Committee
Mr. R. J. Goebel, CRPC/MPO Director of Planning